NPS ARCHIVE
1997.06
MURACH, J.

DUDLEY KNOX LIBRARY
NAVAL POSTGRADUATE SCHOOL
MONTEREY CA 93943-5101

DUDLEY KNOX LIBRARY
NAVAL POSTGRADUATE SCHOOL
MONTEREY CA 93943-5101

NAVAL POSTGRADUATE SCHOOL
Monterey, California

THESIS

CENTRALIZED VERSUS DECENTRALIZED ALLOTMENTS IN THE NAVAL SURFACE RESERVE FORCE

by

Joseph A. Murach

June 1997

Principal Advisor: Richard Doyle

Approved for public release; distribution is unlimited.

REPORT DOCUMENTATION PAGE

Form Approved
OMB No. 0704-0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188), Washington, DC 20503.

1. AGENCY USE ONLY *(Leave Blank)*	2. REPORT DATE	3. REPORT TYPE AND DATES COVERED
	June 1997	Master's Thesis

4. TITLE AND SUBTITLE: **CENTRALIZED VERSUS DECENTRALIZED ALLOTMENTS IN THE NAVAL SURFACE RESERVE FORCE**

5. FUNDING NUMBERS

6. AUTHOR(S) Joseph A. Murach

7. PERFORMING ORGANIZATION NAMES(S) AND ADDRESS(ES)
Naval Postgraduate School
Monterey, CA 93943-5000

8. PERFORMING ORGANIZATION REPORT NUMBER

9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)

10. SPONSORING/MONITORING AGENCY REPORT NUMBER

11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the United States Government.

12a. DISTRIBUTION/AVAILABILITY STATEMENT
Approved for public release; distribution is unlimited.

12b. DISTRIBUTION CODE

13. ABSTRACT (Maximum 200 words)

The purpose of this thesis is to examine the advantages and disadvantages of centralized versus decentralized allotments in the Naval Surface Reserve Force. This research will assist the Reserves in determining which system offers the most efficient use of diminishing resources. A literature review on private and government sector systems was completed. Interviews were conducted with key personnel at echelons two, three, and four. The next step was to establish an historical background of the Naval Surface Reserve Force and a baseline of the Reserve Personnel Navy (RPN) and Operations and Maintenance Navy Reserve (O&MNR) allotments. The resultant analysis explains the advantages and disadvantages of the two allotments. If the RPN allotment were decentralized, it would allow responsibility at a lower level, more efficient utilization of funds, and a better identification of actual costs. Decentralization of the RPN allotment to the echelon four command level would entail additional costs for manpower, training, and Management Information Systems. It is recommended that some portions of the RPN allotment be lowered to the echelon four command level.

14. SUBJECT TERMS Centralization, Decentralization, Allotments, Naval Reserve	15. NUMBER OF PAGES **58**
	16. PRICE CODE

17. SECURITY CLASSIFICATION OF REPORT	18. SECURITY CLASSIFICATION OF THIS PAGE	19. SECURITY CLASSIFICATION OF ABSTRACT	20. LIMITATION OF ABSTRACT
Unclassified	Unclassified	Unclassified	UL

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)
Prescribed by ANSI Std. 239-18 298-102

Approved for public release; distribution is unlimited.

CENTRALIZED VERSUS DECENTRALIZED ALLOTMENTS IN THE NAVAL SURFACE RESERVE FORCE

Joseph Anthony Murach
Lieutenant Commander, United States Naval Reserve
B.A., The Citadel, 1984

Submitted in partial fulfillment
of the requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL

June 1997

MIPS ARCHIVE
1997.06
MURACH, J.
TK6553
M957
c.1

DUDLEY KNOX LIBRARY
NAVAL POSTGRADUATE SCHOOL
MONTEREY CA 93943-5101

ABSTRACT

The purpose of this thesis is to examine the advantages and disadvantages of centralized versus decentralized allotments in the Naval Surface Reserve Force. This research will assist the Reserves in determining which system offers the most efficient use of diminishing resources. A literature review on private and government sector systems was completed. Interviews were conducted with key personnel at echelons two, three, and four. The next step was to establish an historical background of the Naval Surface Reserve Force and a baseline of the Reserve Personnel Navy (RPN) and Operations and Maintenance Navy Reserve (O&MNR) allotments. The resultant analysis explains the advantages and disadvantages of the two allotments. If the RPN allotment were decentralized, it would allow responsibility at a lower level, more efficient utilization of funds, and a better identification of actual costs. Decentralization of the RPN allotment to the echelon four command level would entail additional costs for manpower, training, and Management Information Systems. It is recommended that some portions of the RPN allotment be lowered to the echelon four command level.

TABLE OF CONTENTS

I. INTRODUCTION 1

A. BACKGROUND 1

B. OBJECTIVES 3

C. THE RESEARCH QUESTION 3

D. SCOPE 4

E. METHODOLOGY 4

F. ORGANIZATION OF STUDY 5

II. LITERATURE REVIEW 7

A. PRIVATE SECTOR 7

1. Background 7

2. Five Elements of Centralization and Decentralization 8

3. Top Management 8

4. The Matrix Concept 9

B. GOVERNMENT 10

1. Background 10

2. Efficiency and Innovation 10

3. Power versus Technical Development 12

4. Multilevel System 12

C. SUMMARY 13

III. SURFACE RESERVE FORCE ORGANIZATIONAL STRUCTURE..... 15

A. HISTORICAL BACKGROUND..... 15

B. CONSOLIDATION..... 17

C. NAVAL SURFACE RESERVE FORCE..... 17

D. MISSION..... 18

E. CHAIN OF COMMAND..... 19

F. ALLOTMENTS..... 21

G. SUMMARY..... 21

IV. ANALYSIS..... 23

A. RPN VERSUS O&MNR..... 23

1. Title 31 U.S. Code 1301..... 24

2. Title 31 U.S. Code 1517..... 24

B. ADVANTAGES AND DISADVANTAGES OF CENTRALIZED AND DECENTRALIZED ALLOTMENTS..... 25

1. Advantages of Centralized Allotments..... 25

2. Disadvantages of Centralized Allotments..... 26

3. Advantages of Decentralized Allotments..... 26

4. Disadvantages of Decentralized Allotments..... 27

C. MANAGEMENT INFORMATION SYSTEMS..... 28

1. Reserve Standard Training Administration and Readiness Support..... 28

2. Fund Administration and Standard Document Automation System..... 29

3. Standard Accounting Reporting System-Field Level..... 29

4. Standard Training Event Planning and Scheduling..... 30

5. Reserve Integrated Management System-Order Writing Module..... 30

D. THE DFAS FEE..... 31

E. SUMMARY..... 32

V. CONCLUSIONS AND RECOMMENDATIONS..... 33

A. CENTRALIZATION VERSUS DECENTRALIZATION..... 33

1. Conclusions..... 33

2. Recommendations..... 33

B. MANPOWER AND TRAINING..... 34

1. Conclusions..... 34

2. Recommendations..... 34

C. MANAGEMENT INFORMATION SYSTEMS..... 35

1. Conclusions..... 35

2. Recommendations..... 35

D. THE COST..... 36

1. Conclusions..... 36

2. Recommendations..... 36

E. RETENTION AND READINESS 37

1. Conclusions 37

LIST OF REFERENCES 39

APPENDIX A. ABBREVIATIONS AND ACRONYMS 41

APPENDIX B. GROUP DECISION SUPPORT SYSTEMS FINDINGS 43

INITIAL DISTRIBUTION LIST 47

I. INTRODUCTION

A. BACKGROUND

On April 11, 1996, the Department of Defense Inspector General (DoD IG) issued a draft audit report, and on June 28, 1996, a final report was delivered examining the use of the centrally managed allotment (CMA) accounting system. The CMA system is presently used by all DoD Reserve components for Reserve pay and appropriations instead of decentralized allotments. This report recommended that "the Under Secretary of Defense (Comptroller) establish a working group with the Assistant Secretary of Defense (Reserve Affairs), the Reserve components, and the Defense Finance and Accounting Service (DFAS) to consider converting Reserve and National Guard Personnel appropriations to decentralized allotments." (GDSS, 1996, pg. 3)

The Under Secretary of Defense (Comptroller) requested this audit as a result of a policy change that he is considering to switch the DoD Reserve pay accounting system from centralized to decentralized allotments. (DoD IG report, 1996, pg. i)

According to the audit report:

> Most of the $8 billion spent annually for payment of about 927,000 Reservists is paid through CMAs. DoD considers CMAs a risk because controls are maintained at one level and obligations are incurred at another level. A CMA is comparable to an open checking account, where checks may be written at any time without knowledge of the available balance. (DoD IG report, 1996, pg. i)

DoD regulation 7000.14-R states that:

> CMAs shall be established only when the administration of decentralized allotments is impractical. Any request to establish a CMA must justify the need, delineate alternatives, and clearly show why a CMA is the only practical procedure. A CMA must be approved by the DoD component head. Prior to Approval, the head of the operating agency requesting the CMA must state that adequate controls are in place to avoid overobligating or overexpending of the allotment. Each CMA must be reviewed annually to determine whether it should be continued. (DoD 7000.14R Vol. 14, 1995, pg. A-4)

For the fiscal year (FY) 1994 budget, the cost of annual training (AT) for the Naval Reserves was estimated at three million dollars for 1,650 orders. As the fiscal year came to an end, 7,300 orders were actually processed, at a cost of $14 million. These unanticipated expenditures were due to increased fleet support for operations in Bosnia and Haiti. Support for these operations required overseas travel, and this was more expensive than AT in the United States. These unanticipated expenditures caused difficulty in the management of funds and increased the possibility that an Antideficiency Act violation would occur. (DoD IG report, 1996, pg. 10)

"The Naval Reserve had difficulty reacting to the unanticipated expenditures because they occurred late in the FY and with a delay of 60 to 90 days after liquidation before DFAS posting of the data to the Naval Reserve's accounting system." (DoD IG, 1996, pg. 10) Even though a subordinate command issued the orders, under the CMA system there was little incentive to manage the funds since their financial responsibility was limited. Adding to the funding shortfall was the fact that some anticipated officer attrition did not occur. This kept more personnel on the payroll than had been budgeted. The end strength plan was not followed by subordinate commands. One official from a subordinate command stated, that "he did not try to reduce end strength or staff days; he let Headquarters, Naval Reserve Force (RESFOR), solve the problem." (DoD IG report, 1996, pg. 11)

B. OBJECTIVES

The objective of this thesis is to evaluate the advantages and disadvantages of centralized versus decentralized allotment accounting systems in the Naval Surface Reserve Force (SURFRESFOR). As resources are increasingly constrained, it is essential that SURFRESFOR get as much "bang for the buck" as possible. This will only occur with the effective use of funding. The analysis will address the feasibility of decentralizing allotments from a Headquarters level, an echelon two command, to the lowest level, an echelon six command, in the Surface chain of command. An analysis of the additional manpower and Management Information Systems (MIS) support that would be required if echelons three through six were to exercise this new authority will be conducted. Finally, this thesis will present some possible solutions to this dilemma from the results of research and interviews. The information developed in this thesis will provide recommendations for establishing or streamlining already existing systems.

C. THE RESEARCH QUESTION

The primary research question of this thesis is, "What are the advantages and disadvantages of CMAs and decentralized allotments in SURFRESFOR?"

Additional issues to be addressed include the following:

1. What MISs are needed to establish decentralized allotments at lower echelons?
2. Is additional manpower required for decentralization?
3. Do CMAs prevent flexibility in the use of funds at each echelon and reduce efficiency?
4. What is the estimated cost in establishing decentralized allotments?
5. Is it feasible to decentralize all or some allotments?

D. SCOPE

The scope of this thesis is an analysis of the impact of allowing CMAs from RESFOR to be decentralized from echelon two through six in SURFRESFOR. The main focus is on the Reserve Personnel Navy (RPN) allotment, with comparisons to the Operations and Maintenance Navy Reserve (O&MNR) allotment, which is already decentralized. The specific levels examined for decentralization are SURFRESFOR, Readiness Command (REDCOM), Reserve Center (RESCEN), and a Reserve unit. Data gathered is from FY 1996 and 1997. One limitation was difficulty in obtaining data to determine the effects on retention and readiness of not having decentralized allotments at the lowest level.

E. METHODOLOGY

The first method used was interviews with key personnel. Interviews were conducted with personnel assigned to RESFOR, SURFRESFOR, with REDCOM Comptroller organizations, and with officials from Group Decision Support Systems (GDSS), contracted by DoD to conduct system modeling on CMAs. These interviews focused on the disbursement of funds, advantages and disadvantages of CMAs and decentralized allotments, feasibility of implementation at lower echelons, manpower requirements, and MISs required for decentralization.

My second method consisted of archival research. A literature review was conducted to include prior Naval Postgraduate School theses, DoD IG audit reports, contracted research group reports, DoD Financial Management Regulations, Budget Estimates of the Office of the Secretary of Defense/Office of Management and Budget (OMB), Internet articles on business oriented CMAs and decentralized allotments, financial briefings, and various other publications.

F. ORGANIZATION OF STUDY

This thesis is divided into five chapters as follows:

Following this introductory chapter, Chapter II will place the CMA issue within the context of budgeting, resource allocation, and expenditures. Chapter III will briefly discuss the establishment of the Naval Reserves and provide a description of the SURFRESFOR's history and organizational structure. Chapter IV will include an analysis and discussion of the feasibility of establishing decentralized allotments from echelon three to echelon six. The final chapter will include a wrap-up of the research findings and recommendations for implementation or further studies on the subject.

II. LITERATURE REVIEW

For this literature review, I reviewed books regarding centralization and decentralization within the private sector and the government. This review was conducted to gather insight on the similarities or differences between corporations and the public sector. Before we can discuss the level of centralization and decentralization present in these entities, we must first define these two terms.

> Centralization is the extent that decisions are made at relatively high levels in the organization. Decentralization is the extent that discretion and authority to make important decisions are delegated by top management to lower levels of executive authority. (Simon, 1954, pg. 1)

A. PRIVATE SECTOR

1. Background

After the Second World War, students of business organizations questioned whether companies should remain centralized or move toward decentralization. The discussion was based on various companies' experiences, and such factors as decision making, resources, customer satisfaction, and profit. Although the Navy does not make a profit, it has similarities to large corporations, especially in the areas of decision making, resources, and customer satisfaction. A single person cannot manage a large organization, without input from many people. If one person is in charge and the organization grows, then that one person may become a hindrance to the success of the company with centralized decision making. As top management becomes overloaded, they must delegate certain company processes to subordinates. Of course, as more of the company's functions are decentralized, there is more of an opportunity for delays in communication, action, and decisions which are not compatible with corporate policy. As these problems grow, top management

assigns specialized staff personnel to solve these problems. (Morris, 1968, pg. 4)

2. Five Elements of Centralization and Decentralization

According to Simon, the degree of centralization or decentralization of a company depends on five elements:

1. Structure of accounts and reports. A decentralized account structure is one that provides a maximum of information about individual subordinate organization units.

2. Geographical location. Geographical decentralization means locating company personnel in locations other than the home office.

3. Formal authority relations. Decentralization of formal authority means attaching accounting units directly to the operating units whose activities they are recording.

4. Loyalties. Decentralization of loyalties means encouraging accounting personnel to regard themselves as members of the operating team to which they are providing service.

5. Channels of Communication. Decentralization of communication means building up direct contact and communication between accounting personnel and the executives and supervisors. (Simon, 1954, pg. 2)

3. Top Management

There are two elements that top management must establish prior to changing from a centralized to a decentralized corporation. First, top management must be assured that their divisional mangers make the same decisions as they would in the same situation. They have to place substantial trust in these subordinate managers to ensure that these decisions regarding resources, profit, customer satisfaction, or production are done in the best interests of the company. Unless responsibility and authority are delegated, decentralization cannot take place. This causes a bit of a

problem:

> Authority may be divided in many ways. Responsibility can only be partially delegated. An executive can delegate the responsibility for doing a job, but he still retains the responsibility for seeing that job is done. It is this complication more than any other, that makes delegation so difficult. (Baum, 1961, pg. 70)

Cordiner states, "lead by persuasion rather than command. This is inherent in the very idea of decentralization." (Vancil, 1979, pg. 31) Another factor top management must consider is that subordinate managers are evaluated on their effectiveness in attempting to accomplish the company's goals. Top management must have a means to evaluate progress, but not use these evaluations as a means to place fear into subordinates. If subordinates are fearful, they may become less proactive because of possible career ending decisions. (Dearden, 1954, pg. 72)

4. The Matrix Concept

Corporations must decide which form they want their organization to follow: centralized, decentralized, or a mixture of the two, called a matrix. Some companies have applied this matrix concept of combining the best elements of centralization and decentralization. In the 1950's, General Motors kept their divisions decentralized geographically and by products, yet the financial and legal functions remained centralized at the headquarters. (Villers, 1954, pg. 89)

There are two functions that have to be handled correctly by any corporation, and they are efficiency and adaptability.

> 'Efficiency,' the need to ensure that resources are not wasted. At the same time, managers must be concerned with 'adaptability' of their organization in a competitive marketplace, the need to ensure that existing products can be sold profitably, and anticipate the needs of the customers. (Vancil, 1979, pg. 36)

The idea is not to choose one over the other, but to use both. Efficiency is driven by repetitiveness, while adaptability relies on change. The matrix structure can accommodate both of these different requirements. Management can focus on efficient use of inputs, while simultaneously focusing on outputs, the key factors in adaptability. (Vancil, 1979, pgs 38&39)

B. GOVERNMENT

1. Background

Municipal decentralization started in the 1960's. In the early 1970's, President Nixon's New Federalism attempted federal decentralization by giving more discretion to state and local governments regarding federal resources. During this period, consideration was given to delegating more administrative control to regional field offices. One of the first agencies to experience decentralization was the Department of Labor. This agency was in charge of 10,000 project awards annually. Under the new system, regional offices became responsible for these project awards. (Yin, 1977, pg. 113) As Yin states, "decentralization, in short, served as an impetus for reorganizing a federal agency and thereby for changing bureaucratic rules and behaviors that may have become overly rigid and unresponsive."(Yin, 1977, pg.122)

2. Efficiency and Innovation

In government, there is a need for administrative efficiency through decentralization. It is very difficult to effectively run a government when the administration is inefficient due to the centralization of top heavy overhead management. Decentralizing administration allows decisions to be handled at a more workable level and gives personnel their initial government training.

Administrative decentralization is a way to overcome a centralized federal bureaucracy.

This advantage, however, can also raise new problems. As these government agencies established new regional offices, some of the questions that must be answered before successful decentralization of governmental tasks can be accomplished are: How would power be delegated? Who should approve policy? Is it necessary to man the regional offices for all contingencies? (Benson, 1941, pgs. 13,14&21)

During the 1940's, some officials felt that decentralization of the federal government to the state and local levels would actually produce inefficiency. As Benson states,

> To achieve efficiency plus safety-which seems to be the common goal-readjustments on all levels of government are essential. It is undoubtedly true that we cannot have efficiency without permitting the federal government to assume those functions-however untraditional-which it alone can perform properly. (Benson, 1941, pg. 167)

When it is likely that there are excess resources, slack develops in an organization. This slack is defined by Thompson as:

> Uncommitted and unspecified resources of appropriate personnel, finance, material, and motivation; or if such resources have been committed and specified, it has been done in such a way that they are recoverable. (Thompson, 1969, pg. 42)

With slack, it is possible for innovation to develop. In successful organizations there seems to be more innovation. When an organization has slack, it allows management to take on more risky challenges and back innovation. "The presence of slack encourages the decentralization of control over resources. Centralized control of resources creates a situation most hostile to innovation." (Thompson, 1969, pg.43)

When there is little slack, it reduces opportunities for innovation. Innovation can decrease during periods of crisis management. If the organization is constantly reactive, this will diminish the ability of that organization to innovate. "In a centralized system, only those with authority can legitimately innovate." (Thompson, 1969, pg. 99) This leads to top management feeling overwhelmed in a centralized system. To reduce this feeling, management decentralizes some of their workload, and this freedom gives way to innovation. Decentralization allows state and local agencies to innovate without the fear of repercussions for making a choice. (Thompson, 1969, pgs. 98&99)

3. Power versus Technical Development

Bureaucratic centralization is a result of two causes; personal needs of persons in power and technical development. By decentralizing governmental control, agencies must rely more on lower level decision makers. This prevents top officials from micromanaging their agencies. Second, as technical development increases, it leads to specialization. Due to new skills and new equipment, the cost of this specialization tends to place control at a higher level. (Thompson, 1969, pg. 98)

4. Multilevel System

Stand-alone centralized or decentralized systems relating to resources and decision making may not work all the time for governmental bureaucracies. There may be periods where one system is more beneficial than the other, depending on the environment. A more workable solution allows the multilevel-based government to use the best of both systems.

> Strong central government planning and budgeting are necessary for national goal-setting and coordination. Local governments are closer than the national government to citizens in terms of democratic control. Local governments are likely to be more responsive to variations at close hand, and they may be more efficient in service delivery. This combination would allow national government to decide certain programs and policies to be adopted, and local governments would have the authority and obligation to spend revenue-sharing money on these specified programs. (Yates, 1982, pgs. 199 & 200)

C. SUMMARY

The concepts and elements associated with centralization and decentralization are integrated into corporations and governmental agencies. Many are present in SURFRESFOR'S organizational structure as it impacts the O&MNR allotment. Some of these concepts and elements may need to be revisited during the process of decentralizing the centralized RPN allotment in the SURFRESFOR chain of command. If we view SURFRESFOR as a division or a regional agency of the larger RESFOR organization, many of these business and governmental practices can be applied towards decentralizing.

Some of the decentralization structure needed for the RPN allotment is already in place. SURFRESFOR has the benefit of their subordinate commands already being in different geographic locations. These REDCOMs are working directly with RESCENs on local decision making, operations, and resources regarding the O&MNR allotment. With decentralized RPN funds, lower echelons could further control resources at their local level. The trust that the higher echelons must have in these local decision makers is vital to the success of the implementation. Top management must allow lower levels to make even more decisions without fear of retribution. As long as decisions are made in accordance with established goals and procedures, lower level echelons commanders can

have the freedom to make decisions on their own about changes in operations, resources, and manpower and personnel.

The lower level echelons must be evaluated on the degree to which they are meeting the required missions or goals. If evaluations or comments appear to diminish initiative, the proactive status of these lower personnel will decline. Decision making about funds will become so conservative that money could be held back for fear of making the wrong choice.

Decentralizing the RPN allotment may allow for efficiency, innovation, and timeliness in the use of these funds. This decentralization will require training to handle the new allotment policy and possibly new MISs that are utilized for new RPN accounting procedures. It may not be feasible to lower the RPN allotment authority completely to the lowest echelon. As with the private sector's Matrix concept and the public sector's Multilevel system, it may require that only some of the RPN accounts be delegated and only to certain levels.

As SURFRESFOR's resources become scarcer and requirements grow, the organization will have to better utilize these resources. As with the private sector and other governmental agencies, SURFRESFOR must find the best balance between the centralized and decentralized system concepts to allow for better management of their future resources.

III. SURFACE RESERVE FORCE ORGANIZATIONAL STRUCTURE

Except where noted, the first three sections of this chapter draw upon a thesis written by Richard C. Mazza, entitled Naval Reserve: An Organization In Transition.

A. HISTORICAL BACKGROUND

The Naval Reserves began as individual state navy militias which can be dated back to the colonial period. "The Navy Department in 1887 prepared a plan of organization where the Secretary of the Navy was given authority to lend each state having a militia one of the Navy's older ships, as well as equipment, to 'promote drills and instruction.'"(Naval Reserve, 1995, pg. 2) These militias came under the control of the Navy Department with the Navy Militia Act of 1914.

In 1915, with World War I (WWI) progressing in Europe, Congress established the Naval Reserves. During WWI, Naval reservists served in various roles in support of the war effort. During the years following WWI and until the Japanese Navy threat in 1938, the Naval Reserves suffered from a post war force reduction and shortage of funds. During World War II and the Korean Conflict, the Naval Reserves were once again mobilized. (Naval Reservist News, March 1995, pg. 7)

After the Second World War, the Naval Reserve reorganized its structure. The Naval Air Reserve Training Command was established in 1946 at Glenview, Illinois. The Naval Reserve Training Command (non-aviation) was established in 1956 at Omaha, Nebraska. The Naval Reserve Training Command consisted of surface and submarine and other non-aviation units. The Commandants of what were then called Naval Districts were responsible for the administration and training of these Naval Reserve non-aviation units.

These Naval Districts were in control of a specific Naval geographic region over which they supervised non-aviation schedules. Even though the District Commandant was in control of non-aviation units, the District Deputy Chief of Staff for Reserves had full authority for reserve activities in that district. Prior to 1956, the District Commandants reported to the Director of the Naval Reserve/Assistant Chief of Naval Operations Naval Reserves (ACNO-NR). After the reorganization in 1956, the Naval Districts reported directly to the Chief of Naval Reserve Training Command:

> Within the Naval Districts, numerous Naval Reserve training centers provided drill space, instruction, equipment, and administrative support to drilling reservists. These training and administrative support functions were usually provided by a cadre of Naval Officers known as Training and Administration for Reserves (TAR's). (Mazza, 1992, pg. 25)

The RESCENs were commanded by a TAR officer who reported to the District Deputy Chief of Staff for Reserves. The reserve unit commanding officers (CO) reported directly to the RESCEN CO.

Initially, a Reserve unit was utilized to augment an active duty ship during mobilization:

> Since it was not always feasible for an entire unit to augment a ship, it was decided to reorganize units as 'surface reserve divisions.' Although the reserve divisions drilled and trained together, each member of the division had an individual mobilization billet corresponding to the needs of the fleet. (Mazza, 1992, pg. 26)

The Naval Districts ensured that fleet wide mobilization requirements were met with qualified reservists in mobilization assignments. In times of mobilization, the reservists would be processed, issued mobilization orders, and given government transportation to get to their required destinations.

B. CONSOLIDATION

The Naval Reserve began to reorganize again with the establishment of the Total Force Policy. In 1973, the Commander, Naval Reserve Force (CNAVRESFOR) established a new headquarters in New Orleans, Louisiana, as well as a dual role as Director of Naval Reserve. This new headquarters consolidated Naval Air Reserve Training Command from Glenview, Illinois and Naval Surface Reserve Training Command from Omaha, Nebraska at New Orleans, Louisiana. The consolidation was important for policy implementation, resources, and the view of a Total Reserve Force. Headquartered under CNAVRESFOR are the Commander, Naval Air Reserve Force (CNAVAIRRESFOR) and the Commander, Naval Surface Reserve Force (CNAVSURFRESFOR).

C. NAVAL SURFACE RESERVE FORCE

In 1976, the Naval District Commandants shifted control of Surface Reserve Training Centers to a command level called REDCOMs. Like the old Naval Districts, the REDCOMs would be in charge of Naval units in their specific geographic region.

Within this new restructuring, the REDCOM Commander reported directly to COMNAVSURFRESFOR, and the RESCEN CO reported to these new regional Commanders. The reserve unit CO still reported to the RESCEN CO.

> In the early 70's, the Naval Reserve began a major effort to align Naval Reserve units with active force commands. This period of horizontal integration of reserve units with active components was an effort to institutionalize the 'One Navy' concept originally envisioned under the Total Force Concept. COMNAVSURFRESFOR ships were horizontally integrated into the active fleet for operational control. For non-hardware or augment units, this was the beginning of the gaining command concept presently in place. (Mazza, 1992, pg. 29)

With input from fleet activities, this restructuring assisted in developing training and mobilization standards that became a part of the gaining command concept. Due to the increase in support to the active commands, some functions are now carried out exclusively by Reservists. Commands reporting to COMNAVSURFRESFOR include:

> REDCOMs, Naval Reserve Force Ships (NRFs), Mobile Inshore Undersea Warfare units (MIUW), Naval Reserve Cargo Handling Battalions, Naval Reserve Fleet Hospitals, Special Boat units, and many other combat and augment related to the needs of the surface Navy. (Naval Reserve, 1995, pg. 2)

D. MISSION

During peacetime, the mission of the Naval Reserve is, "to train Naval Reserve personnel to perform the full range of assigned missions and tasks and to meet all mobilization readiness requirements." (R-07A-0010, 1996, pg.1-2-1) During mobilization, the Naval Reserves are, "to augment the regular forces of the United States Navy in time of war or national emergency and at other such times as national security requires."(R-07A-0010, 1996, pg.1-2-1)

E. CHAIN OF COMMAND

The Naval Reserve chain of command consists of six different levels, called echelons (see Figure 1).

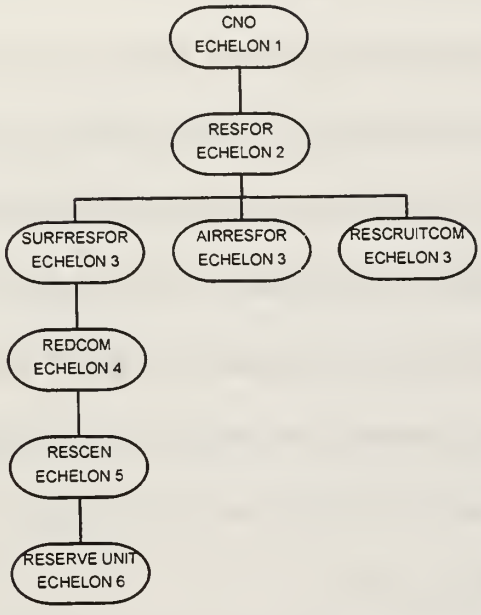

Figure 1: Naval Reserve Chain of Command

Echelon I is the Chief of Naval Operations (CNO), responsible for the Naval Reserve's organization, administration, equipment, and mobilization planning. The CNO prescribes programs and units required through the Director, Naval Reserve (OP-N95) and coordinates overall plans, policies, programming, and budget matters. (R-07A-0010, 1996, pg. 1-2-2)

Echelon II is COMNAVRESFOR. As the Director Naval Reserve (OP-95), he reports to the CNO, with additional duty to Commander in Chief, Atlantic Fleet, (CINCLANTFLT), Commander in Chief, Pacific Fleet (CINCPACFLT), and Commander in Chief, U.S. Naval Forces, Europe (CINCUSNAVEUR). COMNAVRESFOR commands the Naval Reserve Force, consisting of

COMNAVAIRRESFOR, COMNAVSURFRESFOR, and Commander, Naval Reserve Recruiting (COMNAVRESCRUITCOM). COMNAVRESFOR maintains training and administration of Selected Reserves to keep the Naval Reserves in the highest state of readiness for functions that the CNO may require. (R-07A-0010, 1996, pg.1-2-2)

Echelon III consists of many commands, but the focus of this thesis is on COMNAVSURFRESFOR, who manages resources, training, administration, operational control, and coordination of the Naval Surface Reserve Force. (R-07A-0010, 1996, pg.1-2-4)

Echelon IV consists of many commands, but once again the focus is on the REDCOMs. They are responsible for managing personnel and resources for training, equipping, and maintaining readiness for mobilization. The REDCOMs prepare and coordinate regional plans for mobilization execution. (R-07A-0010, 1996, pg. 1-2-4)

Echelon V consists of the Naval Reserve Readiness Centers/Naval and Marine Corps Reserve Readiness Centers/Naval Reserve Centers (NAVRESREDCENs/ NAVMARCOR-RESREDCENs/NAVRESCENs). Although the Readiness Centers assist the RESCENs and conduct on-site training, the Readiness/Reserve Centers still schedule, monitor training and resources, and provide administrative support for reservists assigned to their command. (R-07A-0010, 1996, pg. 1-2-5)

Echelon VI consists of the actual Naval Reserve units. These units are responsible for scheduling, training, and planning for attached Reserve unit personnel. (R-07A-0010, 1996, pg. 1-2-5)

F. ALLOTMENTS

COMNAVRESFOR has two key accounts. One is the O&MNR account. This account is decentralized from this echelon two command to echelon four commands. At echelon four, the REDCOMs transfer funds to the RESCEN level by assigning an Operating Target (OPTAR) which allows the RESCEN to carry on operations with administrative but not legal responsibility.

The other major account is the RPN account. This account is centralized. Control of this account remains at the echelon two level and is not delegated to any lower echelons. With both of these allotments, COMNAVSURFRESFOR is primarily a monitor. This applies especially in the O&MNR account where money goes from echelon two directly to echelon four, bypassing COMNAVSURFRESFOR.

G. SUMMARY

Since the establishment of the Naval Reserves in 1915, Naval Reservists have participated in several national conflicts. Over the years, the Naval Reserves have made numerous changes to keep a force at a high state of readiness. These organizational changes were necessary to meet the changing requirements of the Navy and global situations. Although the chain of command allows decentralization of most decisions, this downward authority does not pertain to the RPN account. Under current budgetary concerns of diminishing resources and with a centralized RPN account, it would appear prudent for the Reserves to reevaluate their way of doing business.

IV. ANALYSIS

The analysis concentrated on factors affecting the centralized RPN allotment as a part of SURFRESFOR. Although there is discussion of the decentralized O&MNR, it is only used for comparison purposes. An established decentralized allotment was used to assist in understanding the advantages and disadvantages of decentralizing the RPN allotment. This chapter begins by examining the accounts which make up the RPN and O&MNR allotments. The next section covers the advantages and disadvantages of centralized versus decentralized allotments based on the Group Decision Support Systems report. The MIS section describes the current systems in place. Finally, the last section covers the fees that DFAS charges for decentralized accounts.

A. RPN VERSUS O&MNR

As stated earlier, the RPN allotment is now centralized and is controlled at the RESFOR level. The RPN allotment consists of Inactive Duty Training (IDT) pay and allowances, Inactive Duty Training Travel (IDTT) travel and per diem, Annual Training (AT) and Active Duty Training (ADT) pay and allowances, travel, and per diem, contract messing, rations in kind, incentive bonuses, Veterans Administration educational assistance, and Selected Reserve (SELRES) uniforms, which consist of allowances and issued clothing. Although the greatest portion of the RPN allotment is centralized at the RESFOR level, a small portion of the allotment is decentralized. This decentralized portion is the IDTT account which is at the REDCOM level. Although no RPN funds are delegated to SURFRESFOR, they control how ADT mandays are utilized and monitor IDTT/AT at the REDCOM levels. (R-07A-0010, 1996, pg. 4-2-4)

The O&MNR allotment provides funds for the day to day operations and maintenance of Naval Reserve Forces. Accounts within this allotment include fuel, supplies, contracts for maintenance of equipment and facilities, civilian personnel salaries and benefits, contract berthing, Temporary Additional Duty (TAD), and weapons and equipment repair parts. (R-07A-0010, 1996, pg. 4-2-4) This allotment is decentralized, therefore the Operating Budget (OB) holder is the REDCOM. This means that the REDCOMs are subject to legal requirements of Title 31 U. S. Code 1301 and Title 31 U.S. Code 1517, which are summarized below.

1. Title 31 U.S. Code 1301

Code 1301 is often referred to as the "color of money law." It ensures that funds are used only for specifically identified appropriations. As stated in DoD Financial Management Regulation Vol. 14, "Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law." (DoD 7000.14R, 1995, pg. B-11)

2. Title 31 U.S. Code 1517

This code, "prohibits any Officer or Employee from making or authorizing an expenditure or obligation exceeding an apportionment or the amount permitted by regulations." If a Code 1301 violation is discovered and accounting adjustments are recorded, the adjustments may reveal overobligations or overexpenditures. These adjustments may lead to a Code 1517 violation. (DoD 7000.14R, 1995, pg. B-24)

B. ADVANTAGES AND DISADVANTAGES OF CENTRALIZED AND DECENTRALIZED ALLOTMENTS

On May 30, 1996, a meeting was convened with GDSS, representatives from the Office of Secretary of Defense staff agencies, and several reserve components. During the discussions, a list of advantages and disadvantages of centralized versus decentralized allotment systems was developed and is included as Appendix B. The following discussion highlights those items from the list which support findings by this author during the literature review and interviews.

1. Advantages of Centralized Allotments

In general, a centralized allotment is less costly than a decentralized allotment. With centralized allotments, there are fewer workers and managers necessary to ensure that work is accomplished. The training of personnel and the use of MIS equipment are cheaper and easier to manage at a higher echelon level than at lower levels. The overall cost of manpower, training, and equipment for CMAs is lower and can lead to a more cost effective system. CMAs allow for maximum flexibility of the allotment within the organization. It can give the claimant the ability to move funding to various commands within the claimancy as deemed necessary. This flexibility leads to higher obligation rates as funds can be maneuvered from command to command.

Top management will be less conservative in holding back contingency funds, and this will lead to a higher execution and a more efficient use of funds. Control at a higher echelon, ensures that one person is in charge and that minimizes the chance of a violation. Since one person is in charge, if there is a violation, only one person is accountable. Finally, CMAs give the claimant the ability to maintain very close control of these accounts.

2. Disadvantages of Centralized Allotments

There is a lack of control over obligations with centralized allotments. Control of the allotment at the claimancy level does not give top management a view of situations at the lower levels. This provides top management with an incomplete picture relating to obligations and expenditures, timeliness of information is slow, and this can lead to an increase in violations. The higher echelons may not receive necessary information to make critical decisions on funds until too late. Also, there is some delay in the accounting systems which can lead to an increase in unmatched disbursements. Training on how the whole allotment works may be lacking at the lower echelons.

Obligations are estimated at a higher level, but executed at a lower level. The lower echelons are closer to cost factors, therefore are more familiar with the execution of funds. The claimant has a more difficult time monitoring execution and with changing rates on items such as air fares, they may hardly ever have the complete picture. With few local controls, a CMA is like having an open checkbook. Everyone spends, but no one can place their finger on how much is being spent at any particular time. If the allotment is not tracked closely, it can lead to surprises and possible 1517 violations caused by overobligation or overexpediture from the lower echelons at the end of the FY. With control of the allotment at higher levels, local commanders are not totally responsible, and there is no real incentive toward efficient use of funds.

3. Advantages of Decentralized Allotments

Decentralized allotments allow the person in control of the obligations to be responsible. Responsibility is at the lowest level. With this responsibility, 1517 authority can be delegated to these lower echelons. As the responsibility and authority are delegated, unit commanders will take more

interest in the efficient utilization of funds.

Actual costs are identified better at the local level, and this helps reduce the possibility of overobligations. If current MISs were improved or appropriate new ones were created, transition would be much easier for the field. Accounting information could be real time instead of delayed. The new approach for large corporations and big business is the decentralization of decisions and funds. Centralization is an antiquated concept, and as long as top management is in total control, it will lead to a less effective organization.

4. Disadvantages of Decentralized Allotments

If allotments were delegated to lower echelons, training requirements associated with handling the new funds would increase. Without effective personnel training, the number of violations could actually increase. Besides the cost of training personnel, there will be additional costs for new MIS programs and hardware at the lower echelons to handle the new allotment. The workload at these lower echelons would increase considerably because of the requirements to handle the new system. As the workload increases, additional manpower would be needed to sufficiently manage these new requirements.

As the costs for training, MISs and manpower increases, the new system could actually cost more than it was intended to save. If the commanders become too conservative, they may hold on to contingency funds longer than necessary, and this may reduce the obligation and expenditure rates. As various higher echelons notice the lower obligation and expenditure rates, they may use these indicators for budget marks to cut future funding. The whole appropriation becomes less flexible, and the higher echelons cannot maneuver funds as easily. If there are surprises, the higher echelons

will not be able to react as quickly, with less control over the allotment.

C. MANAGEMENT INFORMATION SYSTEMS

Throughout SURFRESFOR's organization, there are many MISs. These systems are used for accounting or processing the O&MNR and RPN allotments. Some of the local systems are used to update information for higher echelon systems. It is important to describe these systems to understand how they are utilized to process the various funds. The following are brief descriptions of these systems utilized for the various accounts.

1. Reserve Standard Training Administration and Readiness Support

The Reserve Standard Training Administration and Readiness Support (RSTARS) system supports the manpower, personnel, and training functions at various Reserve echelons. RSTARS consists of three subsets: Medical module, Manpower module, and Training module. A local RESCEN updates their RSTARS database, focusing on personnel event reporting such as gains, losses, miscellaneous changes, and pay. By using the Reserve Training Support System (RTSS), a software interface, changes in the local database are transmitted to a centrally managed database for the Reserves called the Inactive Manpower and Personnel Management Information System (IMAPMIS).

IDT and billet management can also be done if the database is kept up to date. Data from the manpower module is used by IMAPMIS and RESFOR for mobilization and budget purposes. This updated data is transmitted via RTSS located at the Naval Reserve Information System Office (NAVRISO) to the Naval Reserve Personnel Center to update IMAPMIS. RTSS will flag certain

pay requirements and forward these to DFAS for Headquarters management action. This IDT function of the manpower module is key for submission of pay processing information. (R-07A-0010, 1996, pg. 1-8-1)

2. Fund Administration and Standardized Document Automation System

The Fund Administration and Standard Document Automation System (FASTDATA) provides the fund administrator and cost centers a system to manage, track, and report allocated funds. The system can generate standard source documents and accounting requirements for the fund administrator and cost centers. RESCEN OPTAR obligations are made through FASTDATA, which only obligates O&MNR funds. Since the RPN allotment is not decentralized, it does not utilize this system. FASTDATA allows geographically separated RESCENs the capability to electronically transmit obligations via the electronic bulletin board or a computer disk to their regional REDCOM. (R-07A-0010, 1996, pg. 4-1-8)

3. Standard Accounting Reporting System-Field Level

The Standard Accounting Reporting System-Field Level (STARS-FL) uses a CNAVRESFOR file transfer protocol program. This program is an interface between FASTDATA and STARS-FL. It allows the REDCOM to take their respective RESCENs' consolidated obligations and upload them to DFAS Pensacola. STARS-FL is used to verify transactions, for reconciliations, and to obtain expenditure downloads. These expenditure downloads are then sent back through FASTDATA to each respective RESCEN.

4. Standard Training Event Planning and Scheduling

The Standard Training Event Planning and Scheduling (STEPS) system allows SURFRESFOR echelons to develop training objectives six months prior to the new FY. From STEPS, the planner can develop individual requirements, resources, and consolidated training. The purpose of STEPS is to estimate the cost of AT, IDTT and ADT requirements, identify budget requirements, and track cost information. As stated in the CO's Handbook, "STEPS is not an accounting system, but a management tool to plan, schedule, and manage FY training events." (R-07A-0010, 1996, pg. 2-6-2) One product of STEPS is a cost tracking report called the Annual Planning Figure (APF), which is a letter for funding and mandays of IDTT funds only. Although there is no APF for any other RPN accounts, the RESCEN may estimate the number of ADT and AT days requested by their Reserve units. (R-07A-0010, 1996, pg. 2-6-2)

5. Reserve Integrated Management System-Order Writing Module

The Reserve Integrated Management System-Order Writing Module (RIMS-OM) is a software program that is tied to the RSTARS MP module. The program shares data regarding active SELRES bodies at a RESCEN to assist in formulating IDTT, ADT and AT orders. The RESCEN can request orders only for the Unit Identification Codes (UICs) under their command. The orders are downloaded by Reserve Financial Management Active Duty for Training System (RSFMS), at RESFOR, where they are approved, go to a Navy Passenger Transportation Office (NAVPTO), and Scheduled Airline Traffic Office (SATO) for ticketing. RESFOR distributes the IDTT account to the REDCOMs, which then distribute these funds to the RESCEN level. RIMS-OM identifies the maximum IDTT funds available for the RESCEN, preventing RESCEN personnel from

overobligating. Although the AT and ADT accounts are controlled by RESFOR, the RESCEN can still place requests for orders.

D. THE DFAS FEE

In order to have the O&MNR allotment decentralized to the REDCOMs, the Reserves incur a cost. DFAS charges RESFOR a billing fee for overhead to distribute this allotment to various lower level OB holders. In RESFOR, there are 26 O&MNR OB holders. For purposes of this analysis, this author is concentrating on SURFRESFOR's OB holders, which are the ten REDCOMs.

The following is a break down of the formula used in figuring the total cost charged to RESFOR for having the O&MNR allotment lowered to the REDCOM level:

# of Subheads * # of Months * # of Years * Billing Rate = DFAS Fee

SubHead-There is one subhead per REDCOM OB holder; 10 total.

Months-12 months for the year.

Years-Six active years = Calendar Year plus five previous years.

Billing Rate-The DFAS billing rate is $2475 dollars.

10*12*6*$2475 = $1,782,000

The 1,782,000 dollars is the fee that RESFOR must pay DFAS each year in order to have the O&MNR allotment decentralized to the ten REDCOM OB holders. The fee goes up as the billing rate increases each year or the number of OB holders increases. For the fee to decrease, the number of OB holders or the billing rate must decrease.

E. SUMMARY

The O&MNR allotment is decentralized, while the RPN allotment remains centralized. With decentralization of the O&MNR allotment, there are legal requirements that are delegated to the REDCOMs. RESFOR controls the RPN allotment and only delegates a portion, the IDTT account, by an OPTAR to the REDCOMs. There are many advantages and disadvantages of centralized allotments and decentralized allotments. These include costs, flexibility of the allotment, additional manpower and training requirements, accountability, and efficiency. The various MISs are used by either the O&MNR allotment or a certain portion of the RPN allotment. These are used to establish estimates, track funds, update larger database systems, or allow checks to be cut based on training accomplished. Finally, the analysis reveals the overhead cost that DFAS charges RESFOR to have the O&MNR allotment at a lower echelon. This cost would increase if the RPN allotment was also decentralized.

V. CONCLUSIONS AND RECOMMENDATIONS

A. CENTRALIZATION VERSUS DECENTRALIZATION

1. Conclusions

There are many strengths and weaknesses of both centralized and decentralized allotments. The GDSS report, interviews, and the literature review regarding the private and public sectors have shown that neither system is better than the other for all requirements. It appears that the best solution is a combination of both systems. This would parallel the private sector's Matrix system, or the public sector's Multilevel system. By using the best elements of both systems and by making adjustments as the environment changes, the allotments could be managed more efficiently.

2. Recommendations

The system utilized must have elements from both centralization and decentralization applied to the RPN allotment. The IDT portion of the RPN allotment should be kept at the RESFOR level, where there are tight controls. If it were to be decentralized, there would be an enormous training curve and workload that the lower echelons would not be able to address in a timely manner. IDTT should remain at the REDCOM level, with 1517 authority. In addition to the IDTT account, the AT, ADT, SELRES clothing, contract messing, and rations in kind accounts should be at a lower echelon. It is recommended that this be attempted at two REDCOMs (one East coast, one West coast) for a trial period of one year. These two REDCOMs can be later identified to handle the East and West regional ADT requirements.

Prior to the additional accounts being delegated to the REDCOM level, additional manpower, MISs and training must be in place to support these functions. Once the various accounts are delegated to the REDCOMs, they can "OPTAR" these funds to their respective RESCENs. It is the view of this author that 1517 responsibility should not go any lower than the REDCOM level. With little financial expertise, management would find it difficult to handle the allotment, and the cost to lower funding to the echelon five and six levels would be significant. The knowledge and skills necessary at those levels may not be sufficient to prevent 1517 violations from occurring.

B. MANPOWER AND TRAINING

1. Conclusions

In order to decentralize the RPN allotment to the REDCOM level, additional manpower and training would be required. More manpower would be necessary for the additional workload that will come with the new accounts. The added personnel and the current staff will also need training on managing the new accounts and MISs.

2. Recommendations

Analysis determined that two additional personnel would be needed in lowering portions of the RPN allotment. These would be two General Schedule-5 (GS-5) positions designated as accounting technicians for each REDCOM. The two GS-5s would require an accounting refresher course, and with the rest of the REDCOM Comptroller staff, training would consist of accounting differences between the RPN allotment and O&MNR allotment. Training must concentrate on the new accounting procedures and the new MISs.

C. MANAGEMENT INFORMATION SYSTEMS

1. Conclusions

There are many MISs utilized in SURFRESFOR. The O&MNR allotment uses FASTDATA for accounting purposes. RIMS-OM and STARS-FL are replacing the outdated RSFMS. These new systems will make decentralization of the RPN allotment feasible. With the RPN allotment centralized, FASTDATA at the REDCOM and RESCEN levels may also be utilized for RPN accounting, estimating, and numerous other transactions.

2. Recommendations

SURFRESFOR should continue to work with NAVRISO to further reduce the number of and streamline existing MISs. The key to decentralizing any portion of the RPN allotment is to have systems that are user friendly. It is best to have one system that can do all required tasks. One system can also reduce the amount of funds needed to train personnel and maintain the various systems. A system that can apply functions needed for O&MNR and the various RPN accounts could allow personnel to easily reconcile data, retrieve timely reports, and conduct analysis.

With numerous MIS requirements and time constraints in developing software for various functions, SURFRESFOR may consider working with NAVRISO in requesting assistance from the Systems Management Department at the Naval Postgraduate School (NPS). This is a valuable resource to move systems in the right direction and ahead of schedule. By utilizing NPS students, funds normally set aside for consultation work, conducting research, and developing or submitting updates to existing systems and software could be saved.

To decentralize some of the RPN accounts within the near future, a change is required to an

existing system. It is this author's recommendation to utilize the FASTDATA system. This system is already on line for the O&MNR allotment. With some updates in the software, FASTDATA could assist in accommodating the new decentralized accounts. Although this may be a short term fix, it will allow SURFRESFOR to move ahead on decentralization, rather than waiting a longer period of time for development of a new system.

D. THE COST

1. Conclusions

The annual cost to decentralize O&MNR is estimated at 178,200 dollars per REDCOM. This cost pays for the overhead that DFAS charges to RESFOR to lower this allotment to a different command level. As this billing rate changes, the fee charged to RESFOR will also change.

2. Recommendations

Due to the cost of the billing rate, it is not economically feasible to decentralize the RPN accounts beyond the REDCOM level. To decentralize these accounts to the echelon five and echelon six levels would increase the fees. Eventually, these increased fees would outweigh the benefits and they would exceed funding for training. The annual cost of decentralizing some RPN accounts to one REDCOM is as follows (see Figure 2):

DFAS charges	$178,200
Cost of two GS-5s	$41,624
Total	$219,824*

Figure 2: Cost of decentralizing to one REDCOM

*Cost does not include the accounting refresher course with regards to lodging, meals, travel, and any additional required hardware or software changes.

E. RETENTION AND READINESS

1. Conclusions

The research revealed no data on the effects of a centralized RPN allotment on retention or readiness. It is the author's view that if certain short-fused training requirements developed and funds were not transferred in a timely manner, those training opportunities could be lost. This may affect individual and unit readiness, as well as retention.

LIST OF REFERENCES

Baum, Bernard H., Decentralization of Authority in a Bureaucracy, Prentice Hall, Inc., Englewood Cliffs, NJ, 1961.

Benson, George C.S., The New Centralization, Rinehart & Co., Inc., New York, 1941.

Dearden, John, "Problem in Decentralized Profit Responsibility", Harvard Business Review, Boston, MA, 1960.

Department of Defense, Office of the Inspector General Audit Report, Centrally Managed Allotment System in the Reserve Components, June 28, 1996.

Department of Defense 7000.14R, Financial Management Regulation vol. 14, Administrative Control of Funds and Antideficiency Act Violations, August 1995.

Fisher, Debbie, Deputy Director RPN Budget, Personal interview, February 1997.

Greene, Dennis, CDR, Director RPN Budget, Personal interview, February 1997.

Group Decision Support Systems, Inc., Centrally Managed Allotment System in the Reserve Components, Interim Report for the Under Secretary of Defense, Comptroller and the Assistant Secretary of Defense for Reserve Affairs, September 17, 1996.

Mazza, Richard C., Naval Reserve: An Organization in Transition, Naval Postgraduate School, Monterey, CA, September 1992.

Morris, William T., Decentralization in Management Systems, Ohio State University Press, OH, 1968.

Naval Reserves, Overview: U.S. Naval Reserve Force, February 1995.

Naval Reservist News, "The Naval Reserve ... a History of Readiness", March 1995.

Naval Reserve Professional Development Center, Student Guide for Reserve Activity Commanding Officer R-07A-0010, New Orleans, LA, May 1996.

Practical Comptrollership Manual, Naval Postgraduate School, Monterey, CA, 1996.

Simon, Herbert A., Centralization vs. Decentralization in Organizing the Controller's Department, Controllership Foundation, Inc., New York, NY, 1954.

Thompson, Victor A., Bureaucracy and Innovation, University of Alabama Press, University, AL, 1969.

Telephone conversation with Ms. Susan Hovenden, Comptroller REDCOM 22 March 1997.

Telephone conversation with CDR John Robinson, NAVRISO, March 1997.

Telephone conversation with Mrs Hollis, Comptroller REDCOM 19 April 1997.

Telephone conversation with Mr Bach, Comptroller REDCOM 4 April 1997.

Telephone conversation with Mrs Donahue, Comptroller REDCOM 1 April 1997.

Telephone conversation with Mr Karl Zwierski, Comptroller Naval Air Reserve San Diego, April 1997.

Telephone conversation with CDR Black, SURFRESFOR Force Scheduler, April 1997.

Telephone conversation with Senior Chief Revell, RESFOR Human Resources, April 1997.

Telephone conversation with Mr Wynn, Comptroller REDCOM 13 April 1997.

Telephone conversation with Mr Misenko, DFAS Budgeting, April 1997.

Turnley, Andy, LCDR, SURFRESFOR Director Financial Management, Personal Interview, February 1997.

Vancil, Richard F., Decentralization: Managerial Ambiguity by Design, Dow Jones-Irwin, Homewood, IL, 1979.

Villers, Raymond, "Control and Freedom in a Decentralized Company", Harvard Business Review, Boston, MA, 1954.

White, Robert, CDR, Director O&MNR Budget, Personal interview, February 1997.

Yates, Douglas, Bureaucratic Democracy, Harvard University Press, Cambridge, MA, 1982.

Yin, Robert K., Decentralization of Government Agencies, Sage Publications, Beverly Hills, CA, 1980.

APPENDIX A. ABBREVIATIONS AND ACRONYMS

ACNO-NR	Assistant Chief of Naval Operations Naval Reserves
ADT	Active Duty Training
APF	Annual Planning Figure
AT	Annual Training
CINCLANTFLT	Commander in Chief, Atlantic Fleet
CINCPACFLT	Commander in Chief, Pacific Fleet
CINCUSNAVEUR	Commander in Chief, U.S. Naval Forces Europe
CNO	Chief of Naval Operations
CMA	Centrally Managed Allotment
CNAVRESFOR	Commander, Naval Reserve Force
CO	Commanding Officer
CNAVAIRRESFOR	Commander, Naval Air Reserve Force
CNAVSURFRESFOR	Commander, Naval Surface Reserve Force
DFAS	Defense Finance and Accounting Service
DoD IG	Department of Defense Inspector General
FASTDATA	Fund Administration and Standardized Document Automation System
FY	Fiscal Year
GS	General Schedule
GDSS	Group Decision Support Systems
IDT	Inactive Duty Training
IDTT	Inactive Duty Training Travel
IMAPMIS	Inactive Manpower and Personnel Management Information System
MIS	Management Information System
MIUW	Mobile Inshore Undersea Warfare
MP	Manpower
NAVMARCOR	Naval and Marine Corps
NAVRESREDCEN	Naval Reserve Readiness Center
NAVRISO	Naval Reserve Information System Office
NAVPTO	Navy Passenger Transportation Office
NRFs	Naval Reserve Force Ships
OB	Operating Budget
OMB	Office of Management and Budget
O&MNR	Operations and Maintenance Navy Reserve
OPTAR	Operating Target
REDCOM	Readiness Command
RESCEN	Reserve Center
RESFOR	Reserve Force
RPN	Reserve Personnel Navy

RSFMS	Reserve Financial Management Active Duty for Training System
RSTARS	Reserve Standard Training Administration and Readiness Support
RTSS	Reserve Training Support System
SATO	Scheduled Airline Ticket Office
SELRES	Selected Reserves
STARS-FL	Standard Accounting Reporting System-Field Level
STEPS	Standard Training Event Planning and Scheduling
SURFRESFOR	Surface Reserve Force
TAR	Training and Administration for Reserves
UIC	Unit Identification Code
WWI	World War I

APPENDIX B. GROUP DECISION SUPPORT SYSTEMS FINDINGS

The following observations were made during the discussion on May 30, 1996.

1. ADVANTAGES OF CENTRALLY MANAGED ALLOTMENTS

a. Less costly than a closed (decentralized) system.
b. Easy to get global/overall appropriation picture than decentralizing.
c. The open allotment system has been used for several years. Difficult to transition to closed system without substantial lead time to train, devise systems, and account for manpower needs.
d. Maximum flexibility to adjust funds among different commands of the Reserve Component Service.
e. Centralized management ensures the Reserve Component Chief's programs are funded and implemented.
f. Allows for higher obligation rates because there's only one "cushion," not a "cushion" for each subordinate command.
g. Easier to train and manage one central office, rather than man satellite organizations.
h. Decentralized accounting.
I. Control at a higher level of reporting.
j. Least likely for an anti-deficiency violation to occur because the data is rolled up at a summary level for violation purposes.
k. Flexibility with the appropriation.
l. Ease of balancing the standard accounting system.
m. Simplicity of loading allotment.
n. There is less fallout on the lower echelons.
o. Reduced number of personnel to manage.
p. Anti Deficiency Act resides at appropriation level.
q. Flexibility to move funds.
r. There will be a smaller safety withhold leading to more execution of funds.
s. Fewer personnel are needed to manage.
t. Allows for control of funding responsibility at the appropriation level, rather than reporting at several specific funding points. Greater potential for violations with a closed system.
u. One comptroller making conservative estimates vice four or five down to the unit CO level.
v. Efficient management of funds.
w. Potential for a large amount of fallout dollars due to reserves that must be maintained by each funding point under a closed system.
x. Cost factors and analysis would be maintained at one level. Difficult to decentralize accurately under a closed system.

2. DISADVANTAGES OF CENTRALLY MANAGED ALLOTMENTS

a. Lack of control over obligations.
b. Lack of local funding control.
c. Hard to identify responsibility.
d. Timeliness of data.
e. With a lack of local level execution, it is easier to get an overobligation violation.
f. Lack of Commander insight into actual costs of Pay and Allowances.
g. Service Component requires that DFAS accounting be responsible for obligations and disbursements which they are in fact responsible for.
h. Lack of training at the unit level.
I. Obligations only as good as the cost factors available. Better understanding of what's happening in program execution is available in the field.
j. Obligations are estimated at one level while incurred at another (unit unaware of allotment balance).
k. Accounting systems are not real-time which increase unmatched disbursements.
l. Too much guessing by higher echelons on execution.
m. Rates are constantly changing based on numerous variables (participation rates, contingency operations, air fares).
n. Difficult to monitor execution.
o. Limits flexibility to maximize execution.
p. Disbursement lag time increases.
q. Lack of control at state level.
r. Open allotment is an open checkbook-no controls.
s. Unmatched disbursements increase.
t. Cannot establish accruals at detail level.
u. End of Year Surprises.
v. Dependence on estimated rates.
w. Delay in getting detailed execution data results in having to fix problems after the fact.
x. No visibility or concern at the unit level over actions creating obligations; no incentive to be efficient.

3. ADVANTAGES OF DECENTRALIZED ALLOTMENTS

a. Obligations are controlled at a lower level.
b. Responsibility is in the hands of the person in control of the obligations.
c. Identifies actual cost by unit.
d. Responsibility and obligations are at the unit level.
e. Control of funds is at the local level.
f. "Pins the rose" on the person in the field who has the real control on how the money is

spent.
g. Better responsibility over specific program, more people involved in controlling costs.
h. Obligations will be controlled at a lower and more specific level.
I. Requirement for strong personnel and comptroller support at local level.
j. Requirement for strong comptroller and execution training for command personnel.
k. 1517 delegated to the lower levels.
l. Anti Deficiency Act resides at program manager level.
m. Maximizes execution of funds.
n. State control of funds.
o. Real time accounting information.
p. Unit commanders are responsible for efficiency of funds.
q. Passes responsibility to the lowest level.
r. Decreases likelihood of overobligation.
s. Centralization is an outdated concept.

4. DISADVANTAGES OF DECENTRALIZED ALLOTMENTS

a. Training required for lower levels.
b. Increased hardware costs.
c. Lack of control over entire appropriation...less flexible.
d. Even with lower level accountability, Anti Deficiency Act violations may still occur.
e. The cost of new systems may be more than the overobligations that they are trying to prevent.
f. The opportunities for fallout are higher at the lower echelons with decentralized allotments.
g. Labor intensive.
h. No standard systems to support.
I. Will require more training and funds to put in place, create more workload at the field level.
j. Will require a significant change to the military pay systems at DFAS.
k. The system lends itself to having more contingency funds (kitties) within the system to preclude anti-deficiency act violations.
l. 1517 violations at field level would have the potential to increase, even though the total appropriation is still solvent.
m. It would be harder to maintain good (97+%) execution rates for the appropriation, because every subordinate command would retain funds to ensure that their sub-allocation was not overspent.
n. Conservative estimates leading to under-execution of the program.
o. If under-execution occurs, Comptroller will not fund to previous level and cut funding in subsequent years.

p. Components are unable to react to unplanned events without control of funds at the HQ level.
q. Manpower requirements could increase.
r. Management tools needed.
s. System dependent.
t. Hardware requirements could increase.

INITIAL DISTRIBUTION LIST

No. Copies

1. Defense Technical Information Center..... 2
   8725 John J. Kingman Rd., Ste 0944
   Ft. Belvoir, VA 22060-6218

2. Dudley Knox Library..... 2
   Naval Postgraduate School
   411 Dyer Road
   Monterey, CA 93943-5101

3. Chief of Naval Operations (N959)..... 1
   2000 Navy Pentagon
   Washington, DC 20350-2000

4. Commander, Naval Surface Reserve Force..... 2
   Financial Management (N01B)
   4400 Dauphine Street
   New Orleans, LA 70146-5100

5. Commander, Naval Air Reserve Force..... 1
   4400 Dauphine Street
   New Orleans, LA 70146-5100

6. Prof. Richard Doyle..... 1
   Code SM/DY
   Naval Postgraduate School
   Monterey, CA 93943

7. Captain John E. Mutty..... 1
   Code SM/MU
   Naval Postgraduate School
   Monterey, CA 93943

8. LCDR Joseph A. Murach..... 1
   264 East Main Road
   Portsmouth, RI 02871

3 48'3NPG
TH 2553
10/99 22527-200

DUDLEY KNOX LIBRARY
3 2768 00366730 4